

**HURON BEHAVIORAL HEALTH**

**HURON COUNTY, MICHIGAN**

**FINANCIAL REPORT**

**SEPTEMBER 30, 2008**

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Board  
Huron Behavioral Health  
Bad Axe, Michigan 48413

We have audited the accompanying financial statements of the governmental activities and each major fund of Huron Behavioral Health as of and for the years ended September 30, 2008 and 2007, which collectively comprise Huron Behavioral Health's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Huron Behavioral Health's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Huron Behavioral Health, as of September 30, 2008 and 2007, and the respective changes in financial position, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2008, on our consideration of Huron Behavioral Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

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## INDEPENDENT AUDITOR'S REPORT

The management's discussion and analysis and required supplemental information on pages iii through ix and 26 through 29, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Nietzke & Faupel, PC*

NIETZKE & FAUPEL, P.C.  
PIGEON, MICHIGAN

December 31, 2008

# **HURON BEHAVIORAL HEALTH**

## **Management's Discussion and Analysis**

*For the year ended September 30, 2008*

This section of the Huron Behavioral Health (HBH) annual financial report presents management's discussion and analysis of financial performance for the fiscal year ended September 30, 2008 (FY08). This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Michigan Department of Community Health (MDCH) contracts for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. Bay-Arenac Behavioral Health Authority (BABHA) is the designated Medicaid PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Tuscola, and Shiawassee counties. HBH is affiliated with and subcontracts for Medicaid funding through BABHA, rather than directly with the state. State General Fund revenue and other state and federal grants and earned contracts are sourced directly from the state.

### **FINANCIAL HIGHLIGHTS**

- Operating results show a deficit of \$297 thousand or 3.1% of revenue compared to a \$157 thousand deficit in the prior year.
- Unrestricted net assets are \$2.1 million or 44% of total assets.

### **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide statements and fund statements.

**Authority-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position.

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**Management's Discussion and Analysis**  
*For the year ended September 30, 2008*

The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year principal and interest payments recorded as expenditures.

## **SUMMARY OF NET ASSETS**

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2008 and 2007.

### **Summary of Net Assets**

*As of September 30, 2008 and 2007  
(In \$000s)*

	<u>2008</u>	<u>2007</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<b><u>Assets</u></b>				
Current assets	\$ 3,555	\$ 3,649	\$ (94)	-2.6%
Restricted assets	425	456	\$ (31)	-6.9%
Capital assets	<u>733</u>	<u>636</u>	<u>\$ 97</u>	15.2%
<b>Total assets</b>	<b><u>4,713</u></b>	<b><u>4,741</u></b>	<b><u>(28)</u></b>	<b>-0.6%</b>
<b><u>Liabilities</u></b>				
Current liabilities	1,513	1,205	\$ 308	25.6%
Noncurrent liabilities	425	456	\$ (31)	-6.9%
Long-term debt	<u>123</u>	<u>131</u>	<u>\$ (8)</u>	-5.9%
<b>Total liabilities</b>	<b><u>2,061</u></b>	<b><u>1,792</u></b>	<b><u>269</u></b>	<b>15.0%</b>
<b><u>Net Assets</u></b>				
Investment in capital assets	602	497	\$ 105	21.1%
Unrestricted	<u>2,050</u>	<u>2,452</u>	<u>\$ (402)</u>	-16.4%
<b>Total net assets</b>	<b><u>\$ 2,652</u></b>	<b><u>\$ 2,949</u></b>	<b><u>\$ (297)</u></b>	<b>-10.1%</b>
<i>Current financial position</i>	2,042	2,444	(402)	-16.5%
<i>Current ratio</i>	2.3	3.0	(0.7)	-22.4%
<i>Unrestricted Net Assets % of Total</i>	43.5%	51.7%	-8.2%	

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*For the year ended September 30, 2008*

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**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position. The current financial position is a positive \$2.0 million, a decrease of \$402 thousand or 16.5%, compared to the prior year. The current ratio is the measure of current assets divided by current liabilities. The current ratio at fiscal year end is 2.3:1, down from 3.0:1 for the prior year. The change in current financial position is a direct reflection of the results of operations and investments in capital assets.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, accrued postemployment benefit, amounts due to others, deferred revenue, and the current portion of long-term debt.

**Restricted assets** consist of cash, investments and accrued interest receivable. These are restricted for payment of compensated absences, including certain deferred compensation amounts.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year and original cost in excess of \$5 thousand. These assets are stated at their original book value, net of accumulated depreciation.

In FY08, \$167 thousand was expended for capital acquisitions. Depreciation expense was \$69 thousand. Of this amount, \$15 thousand was related to assets acquired prior to October 1, 2003 and was not to be considered for Medicaid and State General Fund cost reconciliation purposes. The net change in capital assets was an increase of \$97 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment in capital resources available for the future.

As of year-end, the net book value of depreciable capital assets was 41% of the original book value. This percentage is a measure of the relative age of property and equipment and this low percentage reflects that property and equipment is relatively old.

**Noncurrent liabilities** consist of the liability for compensated absences that includes vested vacation and sick pay obligations and certain deferred compensation amounts.

**Long-term debt** is the mortgage debt incurred to acquire the Genesis home. The amount is shown net of the current portion. The current portion (amount due within one year) is shown in current liabilities.

**Investment in capital assets** is the net book value of capital assets, net of related debt.

**Unrestricted net assets** at the end of the fiscal year are \$2.1 million, a decrease of \$402 thousand or 16.4% for the year. Unrestricted net assets are 44% of total assets, down 8 percentage points from 52% at the end of the prior fiscal year. The change in

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*For the year ended September 30, 2008*

unrestricted net assets is a direct reflection of the results of operations and investments in capital assets.

## **SUMMARY OF ACTIVITIES**

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2008 and 2007.

### **Summary of Activities**

*For the years ended September 30, 2008 and 2007*  
*(in \$000s)*

	<u>2008</u>	<u>2007</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<b><u>REVENUE</u></b>				
Medicaid specialty supports and services	\$7,475	\$6,963	\$ 512	7.4%
State general fund priority populations	944	946	(2)	-0.2%
ABW and MiChild capitation revenue	125	123	2	1.6%
Program service revenue	468	452	16	3.5%
Grants and earned contracts	329	393	(64)	-16.3%
County appropriation	233	233	-	0.0%
Interest income	135	175	(40)	-22.9%
Other local income	14	21	(7)	-33.3%
<b>TOTAL REVENUE</b>	<b><u>9,723</u></b>	<b><u>9,306</u></b>	<b><u>417</u></b>	<b>4.5%</b>
<b><u>EXPENSE</u></b>				
Contractual providers	1,742	1,624	118	7.3%
Program operations	6,827	6,470	357	5.5%
Managed care administration	196	166	30	18.1%
General & Board administration	1,011	963	48	5.0%
Local funds contributed to State	169	169	-	0.0%
Interest expense	6	7	(1)	-14.3%
Depreciation	69	64	5	7.8%
<b>TOTAL EXPENSE</b>	<b><u>10,020</u></b>	<b><u>9,463</u></b>	<b><u>557</u></b>	<b>5.9%</b>
<b>CHANGE IN NET ASSETS</b>	<b><u>\$ (297)</u></b>	<b><u>\$ (157)</u></b>	<b><u>\$ (140)</u></b>	

**Revenue** for the year was \$9.7 million compared to \$9.3 million for the prior year, an increase of \$417 thousand or 4.5% from the prior year.

**Medicaid specialty supports and services revenue** of \$7.5 million increased \$512 thousand or 7.4% compared to the prior year. This represents 76.9% of total revenue compared to 74.8% in the prior year. Medicaid specialty supports and service revenues are provided under a subcontract with BABHA, the Medicaid PIHP for the region. This subcontract is on a net cost not to exceed basis. There was \$108 thousand of available Medicaid subcontract funds unspent and returned to the PIHP for the fiscal year. The



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*For the year ended September 30, 2008*

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increase in Medicaid subcontract revenue is directly attributed to the increases in expenditures for supports and services to Medicaid eligible consumers.

**State General Fund priority population revenue** (formula funding) of \$944 thousand decreased \$2 thousand or 0.2% compared to the prior year. This represents 9.7% of total revenue compared to 10.2% in the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses.

For the fifth consecutive year, the amounts expended under the State General Fund contract exceeded amounts that were provided by the state. To cover these expenditures, \$382 thousand of unrestricted local funds were used, including \$297 thousand of unrestricted local fund balance reserves. For the benefit of the priority populations, the HBH Board chose to expend local funds to cover the unfunded state obligation.

**Adult Benefit Waiver and MiChild capitation revenue** of \$125 thousand increased \$2 thousand or 1.6% compared to the prior year. However, the cost of supports and services for eligible beneficiaries exceeded available revenues. HBH is fully at risk for these state benefit programs. While the cost in excess of revenue may be claimed as State General Fund cost, no surplus State General Funds were available. Thus, the \$120 thousand ABW deficit and \$19 thousand MiChild deficit were covered by local fund sources.

**Program service revenue** of \$468 thousand includes charges for services for consumers not covered by Medicaid subcontracts, State General Funds or other contract or grant revenue sources. These have increased \$16 thousand or 3.5% from the prior year. These represent 4.8% of total revenue, down from 4.9% of total revenue in the prior year. This revenue is a significant source of local funds needed to meet matching fund requirements, cover funding shortfalls in other areas and contribute to unrestricted fund balance.

**Grants and earned contract revenue** of \$329 thousand includes revenue sources for which the use of funds is restricted to a specific purpose. These have decreased \$64 thousand or 16.3% from the prior year. These represent 3.4% of total revenue, down from 4.2% in the prior year. The reduction is primarily in block grants and services provided to other CMHs.

**County appropriation revenue**, interest income and other local income totaling \$382 thousand are available to meet state matching fund requirements and for other local purposes. These revenue sources constitute 3.9% of revenue and have decreased 47 thousand or 10.9% from the prior year, primarily in interest income.

The County appropriation is \$233 thousand, including \$40 thousand for senior services. These county funding levels are unchanged compared to the prior year.

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**Total expense** of \$10.0 million has increased \$557 thousand or 5.9% compared to the prior year. Cost increases were primarily in the cost of direct supports and services for consumers.

Included in expense is \$495 thousand for the funding of postemployment benefit liability under GASB #45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This fund was established in FY06, initially funded in FY06 by a transfer of board-designated fund balance of \$1,068,500, and additionally funded for annual accruals of \$539 thousand in FY06 and \$528 thousand in FY07. Based on an actuarial study at the inception of the fund, the present value of future vested benefits was \$5.5 million. Funding since this report has totaled \$2.6 million.

Included in expense is the cost of a building lease for the HBH primary offices. This building is owned by the County of Huron and is leased to HBH at a fair market rental value as determined by an independent appraisal. This lease arrangement is currently being examined by MDCH. The result and possible financial implications of this examination are unknown at this time.

**Contractual provider expense** of \$1.7 million includes state facility (\$0 for FY08), community hospital, residential supports, supported employment, and transportation providers. These represent 17.4% of total expense, and have increased \$118 thousand or 7.3% over the prior year. This increase is primarily attributed to increases in services and supports provided to Medicaid eligible consumers.

**Program operations expense** of \$6.8 million includes salaries, benefits and other operating costs of direct-operated supports and services programs. These represent 68.1% of total expense, and have increased \$357 thousand or 5.5% from the prior year. This increase is primarily attributed to increases in services and supports provided to Medicaid eligible consumers.

**Managed care administration expense** of \$196 thousand relates to state contracts held by HBH and to functions delegated to HBH by the regional Medicaid PIHP. These represent 2.0% of total expense, and have increased \$30 thousand or 18.1% from the prior year. Much of this increase is due to a change in the fringe benefit allocation as requested by the PIHP for regional consistency purposes.

**General and Board administration expense** of \$1.0 million represents 10.1% of total expense. These have increased \$48 thousand or 5.0% compared to the prior year, primarily attributed to the change in fringe benefit allocation as requested by the PIHP for regional consistency purposes.

## **BUDGET**

The budget process continues to be challenging due to state budget difficulties and increasing demands for entitlement services in Medicaid and other managed care contract programs. Unlike other local government budgets, 88% of the HBH budget

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**Management's Discussion and Analysis**  
*For the year ended September 30, 2008*

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consists of managed care contract programs with some element of insurance risk. These are essentially entitled supports and services for eligible beneficiaries or for specialized services for uninsured or underinsured priority populations. As such a majority of its expense is non-discretionary.

### **FUTURE OUTLOOK**

The State of Michigan continues its struggle to balance budget deficits. Federal cost constraints are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look favorable.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures.

Of particular concern is the State General Fund Formula Funding for priority populations under the Mental Health Code. Risk reserves and local funds have been expended for five consecutive years to cover under-funded need and obligations. Also of concern is the funding deficit evident in the ABW and MiChild programs. These programs are not risk adjusted for local need. Management will concentrate its efforts to minimize these deficits that require the use of local funds to cover the shortfalls.

While the financial position of HBH is currently healthy, balancing the priorities and budgets is increasingly more difficult.

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*As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.*

## BASIC FINANCIAL STATEMENTS

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**STATEMENTS OF NET ASSETS  
SEPTEMBER 30, 2008 AND 2007**

<b>ASSETS</b>	<b>Governmental Activities</b>	
	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 3,082,445	\$ 3,266,112
Accounts receivable - net	71,505	78,249
Due from other governmental units	152,480	285,270
Prepaid expenses	248,625	19,412
<b>TOTAL CURRENT ASSETS</b>	<b>3,555,055</b>	<b>3,649,043</b>
<b>NONCURRENT ASSETS</b>		
Cash - restricted	424,527	455,779
Capital assets - nondepreciable	81,192	81,192
Capital assets - net	652,335	555,453
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,158,054</b>	<b>1,092,424</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,713,109</b>	<b>\$ 4,741,467</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 226,260	\$ 156,678
Due to service providers	410,611	200,056
Accrued payroll	198,328	156,110
Accrued payroll taxes and benefits	22,875	5,644
Accrued health insurance	152,359	154,159
Post employment benefit liability	494,506	524,563
Current portion long term debt	7,944	7,581
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,512,883</b>	<b>1,204,791</b>
<b>NONCURRENT LIABILITIES</b>		
Accrued severance pay	61,054	71,399
Accrued compensated absences	363,473	384,380
Notes payable - net of current	123,565	131,508
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>548,092</b>	<b>587,287</b>
<b>TOTAL LIABILITIES</b>	<b>2,060,975</b>	<b>1,792,078</b>
<b>NET ASSETS</b>		
Investment in capital assets - net of related debt	602,019	497,556
Unrestricted	2,050,115	2,451,833
<b>TOTAL NET ASSETS</b>	<b>\$ 2,652,134</b>	<b>\$ 2,949,389</b>

The accompanying notes are an integral part  
of the financial statements.

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

Functions	Expenses	Program Revenue		Net (Expense)	
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets	
				<u>2008</u>	<u>2007</u>
Governmental Activities					
Health & Welfare - Mental Health	<u>\$ 10,019,827</u>	<u>\$ 9,194,053</u>	<u>\$ 146,806</u>	<u>\$ (678,968)</u>	<u>\$ (586,950)</u>
General revenues					
Grants and contributions not restricted to specific programs				239,368	239,368
Unrestricted investment earnings				134,920	175,025
Miscellaneous revenues				7,425	15,357
Total general revenues and contributions				<u>381,713</u>	<u>429,750</u>
Change in net assets				<u>(297,255)</u>	<u>(157,200)</u>
Net assets - beginning of year				2,949,389	3,106,589
Net assets - end of year				<u>\$ 2,652,134</u>	<u>\$ 2,949,389</u>

The accompanying notes are an integral part  
of the financial statements.

## FUND FINANCIAL STATEMENTS

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN  
BALANCE SHEETS  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008 AND 2007**

	<b>GENERAL FUND</b>	
<b><u>ASSETS</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Cash and investments	\$ 3,082,445	\$ 3,266,112
Accounts receivable:		
Client Services	71,505	78,249
Due from State of Michigan	36,463	52,812
Due from county	58,313	58,313
Due from other governments	57,704	174,146
Prepaid expenses	248,624	19,412
Cash - restricted	424,527	455,779
<b>TOTAL ASSETS</b>	<b><u>\$ 3,979,581</u></b>	<b><u>\$ 4,104,822</u></b>
<b><u>LIABILITIES:</u></b>		
Accounts payable	\$ 226,261	\$ 156,679
Due to service providers	410,611	200,056
Accrued payroll	198,328	156,110
Accrued payroll taxes and benefits	22,875	5,644
Accrued health insurance	152,359	154,159
Post employment benefit liability	494,506	524,563
<b>TOTAL LIABILITIES</b>	<b><u>1,504,940</u></b>	<b><u>1,197,211</u></b>
<b><u>FUND BALANCES:</u></b>		
Reserved - prepaid expenses	248,624	19,412
Reserved - compensated absences	363,473	384,380
Reserved - severance pay	61,054	71,399
Unreserved	1,801,490	2,432,420
<b>TOTAL FUND BALANCES</b>	<b><u>2,474,641</u></b>	<b><u>2,907,611</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 3,979,581</u></b>	<b><u>\$ 4,104,822</u></b>

The accompanying notes are an integral part  
of the financial statements.



**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS  
TO THE STATEMENTS OF NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Total fund balance - governmental funds	\$ 2,474,641	\$ 2,907,611
Amounts reported for governmental activities in the statement of activities are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Add: Capital assets	1,675,995	1,536,546
Deduct: Accumulated depreciation	(942,468)	(899,901)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Deduct: Severance pay	(61,054)	(71,399)
Deduct: Compensated absences	(363,473)	(384,380)
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
	(131,507)	(139,088)
Net assets of governmental activities	<u>\$ 2,652,134</u>	<u>\$ 2,949,389</u>

The accompanying notes are an integral part  
of the financial statements

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

REVENUES:	<u>2008</u>	<u>2007</u>
<b>State grants</b>		
State General Fund DCH Contract	\$ 943,617	\$ 946,453
Adult benefit waiver	118,348	116,143
MI Child capitation	6,888	6,710
Title XX replacement	6,118	6,118
Other state grants	<u>16,652</u>	<u>18,980</u>
<b>Total state grants</b>	<u>1,091,623</u>	<u>1,094,404</u>
<b>Federal grants</b>		
Federal block grants	34,150	63,900
PAS / ARR Grant	<u>96,004</u>	<u>71,650</u>
<b>Total federal grants</b>	<u>130,154</u>	<u>135,550</u>
<b>Contributions - Local units</b>		
County appropriation	193,250	193,250
Senior grant	<u>40,000</u>	<u>40,000</u>
<b>Total contributions - Local units</b>	<u>233,250</u>	<u>233,250</u>
<b>Charges for services</b>		
Medicaid specialty managed care capitation	7,475,015	6,962,816
Medicaid fee for service	101,537	108,060
Earned contracts	83,672	81,414
Client and third party pay	357,009	391,637
SSI Reimbursements	<u>107,966</u>	<u>108,724</u>
<b>Total charges for services</b>	<u>8,125,200</u>	<u>7,652,651</u>
<b>Interest income</b>	134,920	175,025
<b>Other revenue</b>	7,425	15,356
<b>TOTAL REVENUES</b>	<u>9,722,572</u>	<u>9,306,236</u>

(Continued)

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

<b>EXPENDITURES:</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Health &amp; Welfare - Mental Health</b>		
<b>Personnel costs:</b>		
Salaries & wages	3,933,689	3,593,618
Fringe benefits	1,932,248	1,886,750
Board per diem	10,220	11,025
<b>Total personnel costs</b>	<u>5,876,157</u>	<u>5,491,393</u>
<b>Operating expenditures:</b>		
Building rental	169,649	169,649
Consumer food, clothing	43,754	42,869
Contract residential	349,766	353,370
Contractual other	1,520,644	1,168,742
Inpatient - private	347,750	280,175
Inpatient - state	-	30,143
Insurance & bonds	51,624	48,484
Medical	673,859	725,558
Other operating expense	55,267	232,618
Printing, postage & advertising	29,035	79,832
Regional manage care administration	31,350	28,800
Repairs & maintenance	218,836	157,306
Supplies	144,419	101,850
Telephone	69,445	66,716
Travel	152,820	129,483
Utilities	71,074	72,596
Local funds paid to PIHP	168,800	168,800
<b>Total operating expenditures</b>	<u>4,098,092</u>	<u>3,856,992</u>

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Capital Outlay	167,364	49,671
Debt Retirement	13,929	13,929
TOTAL EXPENDITURES	<u>10,155,542</u>	<u>9,411,985</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>(432,970)</u>	<u>(105,749)</u>
FUND BALANCE - OCTOBER 1	2,907,611	3,013,360
FUND BALANCE - SEPTEMBER 30	<u>\$ 2,474,641</u>	<u>\$ 2,907,611</u>

The accompanying notes are an integral  
part of the financial statements.

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Net change in fund balances - total governmental funds	\$ (432,970)	\$(105,749)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives as depreciation expense.		
Add: Capital outlay	167,364	49,671
Deduct: Net book value of disposals	(1,352)	(3,509)
Deduct: Depreciation expense	(69,130)	(64,330)
Loan proceeds provide current financial resources to governmental funds, while the repayment of principal on debt is an expenditure in the governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which debt repayments exceeded debt issued during the fiscal year.		
	7,581	7,235
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Add: Decrease (Increase) in accrual for severance pay	10,345	(8,582)
Add: Decrease (Increase) in accrual for compensated absences	20,907	(31,936)
Change in net assets of governmental activities	<u>\$ (297,255)</u>	<u>\$(157,200)</u>

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The basic financial statements of Huron Behavioral Health have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by Huron Behavioral Health are described below:

**Reporting Entity**

Huron Behavioral Health is an Authority that operates under the provisions of Act 258 – Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbances, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Huron who meet eligibility and other criteria. As the community of members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving the public interest.

The accounting policies of Huron Behavioral Health conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Authority (GASB) Statement No. 14 "The Financial Reporting Entity," these financial statements present all of the Authority's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of Huron Behavioral Health. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**  
**Government-Wide and Fund Financial Statements (Continued)**

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is Huron Behavioral Health's policy to use restricted resources first, then unrestricted resources as they are needed.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Huron Behavioral Health considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2008, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Fund Accounting**

The financial activities of Huron Behavioral Health are recorded in individual funds, each of which is deemed to be a separate accounting entity. Huron Behavioral Health uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of Huron Behavioral Health that are reported in the accompanying financial statements have been classified into the following major governmental funds

**Governmental Funds**

General Fund – This fund is Huron Behavioral Health's primary operating fund. It accounts for all the financial resources except those required to be accounted for in other funds.

**Budgetary Data**

Huron Behavioral Health's general fund budget is under formal budgetary control and follows both Huron Behavioral Health's and Michigan Department of Community Health's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with generally accepted accounting principles and the requirements of the Michigan Department of Community Health.

**Cash and Cash Deposits**

In accordance with Michigan Compiled Laws, Huron Behavioral Health is authorized to invest in obligations of the U.S. Treasury including its agencies and instrumentalities, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC), commercial paper rated in the three (3) highest classifications of two rating services, United States government or federal agency obligation repurchase agreements, and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Huron Behavioral Health's deposits are in accordance with statutory authority.

A specific amount of cash has been restricted for future payment of the compensated absences, since it has been charged to the Department of Community Health. Huron Behavioral Health has established a separate cash account to monitor this future liability.



**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Receivables**

Uncollectible accounts are provided for using the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. Based on these factors, there is an allowance for uncollectible accounts of \$39,000 and \$50,000 at September 30, 2008 and 2007, respectively.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of Huron Behavioral Health are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	N/A
Buildings and Improvements	20 – 40
Equipment	5 – 10
Computers	3
Transportation Equipment	5

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Incurred But Not Reported Claims Liability**

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimate. The Authority may not be billed for these until several months after the date of service. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third party payers.

**Compensated Absences**

Huron Behavioral Health's policy allows full time employees to accumulate vacation time and sick time, at various rates, depending on the employee's length of service with Huron Behavioral Health. The governmental fund financial statements record expenditures when employees are paid for these compensated absences. The government-wide financial statements record the expense and the related liability when these compensated absences are earned by employees.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid expenses are examples of the former. Reserves for compensated absences are examples of the latter.

By resolution of the Authority's board, reserved fund balances in the amount of \$673,151 and \$475,191 as of September 30, 2008 and 2007 were established to provide for payment of future liabilities related to the following:

	<u>2008</u>	<u>2007</u>
Prepaid expenses	\$ 248,624	\$ 19,412
Compensated absences	363,473	384,380
Severance pay	<u>61,054</u>	<u>71,399</u>
Total	<u>\$ 673,151</u>	<u>\$ 475,191</u>

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information**

As set forth by State law, the CMH Board adopts an annual budget on a government wide basis. The annual budget is adopted on the full accrual basis of accounting in accordance with GASB Statement 34. The Executive Director is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures must be approved by the CMH Board. For the year ended September 30, 2008, the original budgeted expenditures amounted to \$10,060,798. During the fiscal year ended September 30, 2008, there were no budget amendments that increased the total budgeted expenditures. The government wide budget is presented in the Statement of Revenue and Expenses - Budget and Actual. All annual appropriations lapse at the end of the fiscal year.

**Excess of Expenditures Over Appropriations**

Budget control has been established by the CMH Board at the level of the following expenditure categories: Contractual providers, Program operations, Managed care administration, General and Board administration, Local funds contribution, and Depreciation. During the year ended September 30, 2008, Huron Behavioral Health incurred expenditures in the following categories which were in excess of the budgeted amounts:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Community Hospital	\$ 329,567	\$ 347,750	\$ 18,183
Residential Services	348,515	349,766	1,251
Community Supports	964,334	1,044,054	79,720
Managed care administration	171,400	195,813	24,413
General & board administration	1,000,264	1,011,264	10,896
Depreciation	68,866	69,130	264

**NOTE 3 - CASH AND INVESTMENTS:**

As of September 30, 2008 and 2007, the Authority's cash balances are as follows:

	<u>2008</u>	<u>2007</u>
<b>Carrying amount of cash and investments</b>		
Unrestricted – General Fund	\$3,082,445	\$3,266,112
Restricted – General Fund	<u>424,527</u>	<u>455,779</u>
<b>Total carrying amount of cash and investments</b>	<b><u>\$3,506,972</u></b>	<b><u>\$3,721,891</u></b>

The bank balances of the cash and investments are classified as follows:

	<u>2008</u>	<u>2007</u>
Insured by FDIC	\$1,581,822	\$1,019,052
Uninsured and uncollateralized	1,584,356	2,394,206
Cash management account backed by government securities	<u>686,281</u>	<u>373,047</u>
<b>Total bank balance of cash and investments</b>	<b><u>\$3,852,459</u></b>	<b><u>\$3,786,305</u></b>

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 3 - CASH AND INVESTMENTS: (CONTINUED)**

Restricted cash balances have been set aside for the following purposes:

	<u>2008</u>	<u>2007</u>
Payment of compensated absences	\$363,473	\$384,380
Payment of severance pay	<u>61,054</u>	<u>71,399</u>
<b>Total restricted cash</b>	<b>\$424,527</b>	<b>\$455,779</b>

As of September 30, 2008, the Authority had the following investments.

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>	<u>%</u>
Government Cash Investment Fund – Comerica Bank	\$686,281	0.0027	100%
Portfolio weighted average maturity		<u>0.0027</u>	
1 day maturity equals 0.0027, one year equals 1.00			

The Authority voluntarily invests certain excess funds in external pooled investment funds which included cash management funds. One of the pooled investment funds utilized by the Authority is the Government Cash Investment Fund. The Government Cash Investment Fund is an external pooled investment fund of "qualified" investments for Michigan local units of government. The Government Cash Investment Fund reports as of September 30, 2008, the fair value of the Authority's investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

**Credit risk.** The Authority will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: limiting investments to the types of securities authorized by Board policy and state law.

**Concentration of credit risk.** The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

(Continued)

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 3 - CASH AND INVESTMENTS: (CONTINUED)**

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Authority will do business.

**Foreign currency risk.** The Authority is not authorized to invest in investments which have this type of risk.

**NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS:**

Due from other governmental units as of September 30, consists of the following:

	<u>2008</u>	<u>2007</u>
State of Michigan	\$ 36,463	\$ 52,811
County of Huron	58,313	58,313
Bay Arenac Behavioral Health	13,622	174,073
Other CMHs	<u>44,082</u>	<u>73</u>
<b>Total</b>	<b>\$152,480</b>	<b><u>\$285,270</u></b>

**NOTE 5 – CHANGES IN CAPITAL ASSETS:**

The following is a summary of the changes in the depreciable capital assets of Huron Behavioral Health for the year ended September 30, 2008:

	BALANCE SEPTEMBER 30, <u>2007</u>	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, <u>2008</u>
Office equipment	\$ 247,326	\$ 16,550	\$ 1,600	\$ 262,276
Computer equipment	153,610	27,806	13,863	167,553
Transportation equipment	628,170	57,491	12,452	673,209
Building improvements	83,074	65,517		148,591
Land Improvements	13,075			13,075
Land	81,192			81,192
Buildings	<u>330,099</u>			<u>330,099</u>
<b>TOTAL CAPITAL ASSETS</b>	<b><u>\$1,536,546</u></b>	<b><u>\$ 167,364</u></b>	<b><u>\$ 27,915</u></b>	<b><u>\$1,675,995</u></b>

(Continued)

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 5 – CHANGES IN CAPITAL ASSETS: (CONTINUED)**

**ACCUMULATED DEPRECIATION**

	BALANCE SEPTEMBER 30, <u>2007</u>	DEPRECIATION EXPENSE	DISPOSALS	BALANCE SEPTEMBER 30, <u>2008</u>	NET CAPITAL ASSETS
Office equipment	\$ 194,177	\$17,793	\$ 1,248	\$ 210,722	\$ 51,554
Computer equipment	139,994	9,197	13,863	135,328	32,225
Transportation equipment	517,738	29,683	11,452	535,969	137,240
Building improvements	8,219	2,330		10,549	138,042
Land Improvements	1,308	326		1,634	11,441
Land					81,192
Buildings	<u>38,465</u>	<u>9,801</u>		<u>48,266</u>	<u>281,833</u>
<b>TOTAL</b>	<b><u>\$,899,901</u></b>	<b><u>\$69,130</u></b>	<b><u>\$ 26,563</u></b>	<b><u>\$,942,468</u></b>	<b><u>\$733,527</u></b>

**NOTE 6 – ACCRUED WAGES AND PAYROLL LIABILITIES:**

This liability represents amounts paid to employees during October that were earned during September. Also included are recurring payroll liabilities that are incurred on a monthly basis.

**NOTE 7 – LONG-TERM DEBT:**

Authority policy allows full time employees to accumulate annual leave time at various rates, depending on the employee's length of service with Huron Behavioral Health. Amounts accumulated up to a maximum of 30 days are to be paid to the employee and recognized as an expense either when annual leave time is used, or at the discretion of Huron Behavioral Health, upon termination of employment.

Employees also accumulate sick leave time at various rates, depending on the date of hire. Amounts accumulated up to a maximum of 100 days are to be paid to the employee and recognized as an expense either when sick leave time is used, or at the discretion of Huron Behavioral Health, upon termination of employment. As of September 30, 2008 and 2007, this liability was \$363,473 and \$384,380, respectively.

In accordance with the Mental Health Code, the Authority issued a mortgage with a local bank in the amount of \$149,241. The proceeds of the mortgage were used to purchase a building that is used in the Authority's residential care services. The terms of the mortgage call for monthly payments in the amount of \$1,161 including interest at an annual rate of 4.68%. The maturity date of the mortgage is March 28, 2021 and is collateralized by the building. Interest expense on the mortgage for the year ended September 30, 2008 amounted to \$6,694.

(Continued)

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 7 – LONG-TERM DEBT: (CONTINUED)**

The following is a summary of the changes in long-term debt of Huron Behavioral Health for the year ended September 30, 2008:

	BALANCE SEPTEMBER 30, 2007	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2008	DUE WITHIN ONE YEAR
Accrued compensated absences	\$384,380		\$ 20,907	\$363,473	
Employee severance pay	71,399	\$ 1,815	12,160	61,054	
Note payable	<u>139,089</u>		<u>7,581</u>	<u>131,508</u>	\$ 7,944
<b>TOTALS</b>	<u>\$594,868</u>	<u>\$ 1,815</u>	<u>\$ 40,648</u>	<u>\$556,035</u>	<u>\$ 7,944</u>

Annual debt service requirements to maturity for the mortgage are as follows:

Years Ending September 30,	Principal	Interest	Total
2009	\$ 7,944	\$ 5,985	\$ 13,929
2010	8,324	5,605	13,929
2011	8,722	5,207	13,929
2012	9,138	4,791	13,929
2013	9,575	4,354	13,929
2014 – 2018	55,200	14,447	69,647
2019 – 2021	<u>32,605</u>	<u>1,997</u>	<u>34,602</u>
Totals	<u>\$131,508</u>	<u>\$42,386</u>	<u>\$173,894</u>

**NOTE 8 – UNEMPLOYMENT COMPENSATION:**

Huron Behavioral Health is a reimbursing employer for purposes of unemployment insurance claims against the employer. Huron Behavioral Health reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. Because an estimate cannot be made, the contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

**NOTE 9 – OPERATING LEASES:**

On January 1, 2008, the Authority renewed a lease agreement with the Huron County Board of Commissioners to lease office space. The terms of the lease require monthly payments of \$11,597 for a period of one year beginning January 1, 2008. The Authority is responsible for all expenses of operation including utilities and maintenance. Future minimum lease payments at September 30, 2008 are \$34,791.

The lease further provides for cancellation by the Authority if the purpose for which the lease was entered into no longer exists due to executive, legislative or local government order or insufficient allocation of funds for this location by the Michigan State Department of Community Health and/or the Huron County Board of Commissioners.

(Continued)

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 9 – OPERATING LEASES: (CONTINUED)**

The Authority entered into various lease arrangements for residential housing facilities. The terms of the leases require monthly payments amounting to \$2,541. The Authority is responsible for all expenses of operation including utilities and maintenance.

The leases also provide for an optional renewal term with monthly lease payments to be determined based on an agreed upon formula. The leases further provide for cancellation by the Authority in the event funding is terminated, reduced or licensing is withheld.

**NOTE 10 – RETIREMENT SYSTEM:**

The Authority participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N Canal Road, Lansing, MI 48917.

Under provisions of state statutes, all full-time employees must contribute 3% of the first \$4,200 of annual compensation and 5% of the portion over \$4,200 to the pension plan. In addition, the Authority must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by state statutes.

For the years ended September 30, 2008 and 2007, the Authority's annual pension cost of \$256,296 and \$231,287 for the plan was equal to the Authority's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007 and 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year and (c) 2.5% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

**NOTE 11- DEFERRED COMPENSATION:**

Employees of Huron Behavioral Health may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect to Service For State and Local Governments).

The deferred compensation plan is available to all employees of the Authority. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.



**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 11- DEFERRED COMPENSATION: (CONTINUED)**

The deferred compensation plan is administered by the Michigan Association of Counties. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the Administration, until paid or made available to the employees or beneficiaries, are the property of the Authority subject only to the claims of the Authority's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the Authority and each participant's rights are equal to his or her share of the fair market value of the plan assets. The Authority believes that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise.

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS:**

**Plan Description.** The Authority's defined benefit postemployment healthcare plan, Huron Behavioral Health Postemployment Healthcare Plan (HBPHP), provides medical benefits to eligible retired employees and their beneficiaries. HBPHP is affiliated with the Michigan Municipal Employees' Retirement System Retiree Health Funding Vehicle (RHFV), an agent multiple-employer postemployment healthcare plan administered by the MMERS Retirement System. The Statutes of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in RHFV to the respective employer entities; for HBPHP, that authority rests with the Huron Behavioral Health Board. The MMERS Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for RHFV. That report may be obtained by writing to MMERS Retirement System, 1134 Municipal Way, Lansing, MI 48917, or by calling 1-517-703-9030.

**Funding Policy.** The contribution requirements of plan members and the authority are established and may be amended by the MMERS board of trustees. HBPHP members receiving benefits contribute based on their years of service. Employees with at least 10 years of full time service and age 55 or older are required to contribute 50% of their health insurance premiums, employees with at least 15 years of full time service and age 55 or older are required to contribute 25% of their health insurance premiums, and employees with at least 20 years of full time service and age 55 or older, or that have at least 10 years of full time service and age 60 or older are not required to contribute to the payment of their health insurance premiums. Only employees hired prior to January 1, 1999 are eligible to receive the post employment health care benefits.

The Authority is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 34.12 percent of annual covered payroll.

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS: (CONTINUED)**

**Annual OPEB Cost.** For 2008, the Authority's annual OPEB cost (expense) of \$601,543 for HBHPHP was equal to the ARC. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 was as follows.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/08	\$601,543	17.8%	\$494,506
9/30/07	601,543	12.8%	524,563

**Funded Status and Funding Progress.** The funded status of the plan as of December 31, 2004, (the date of the latest actuary report) was as follows:

Actuarial accrued liability (AAL)	\$5,547,589
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	\$5,547,589
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$1,763,106
UAAL as a percentage of covered payroll	314.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2004, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return (net of administrative expenses) an annual healthcare cost trend rate of 12 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after eight years. Both include a 4.5 percent inflation assumption. The actuarial value of HBHPHP assets was determined using techniques that spread the effects of short-term volatility in the market value of investments. HBHPHP's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2004, was thirty years.

(Continued)

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 13 – RISK MANAGEMENT:**

**General Liability:**

Huron Behavioral Health participates in the Michigan Municipal Risk Management Authority, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a liability limit of \$10 million. The Authority is required to pay annual premiums to the Michigan Municipal Risk Management Authority for the liability coverage. The Authority reduced their liability insurance coverage by \$5 million and settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The Authority also purchased commercial insurance coverage for losses related to their property, automobiles and commercial general liability.

**Workers' Compensation:**

Huron Behavioral Health purchased commercial insurance to provide coverage of losses related to workers' compensation claims. The workers' compensation insurance provides coverage for up to a maximum of \$1,000,000 for each workers' compensation claim

**Employee Health Care:**

For its risk of losses related to providing health care benefits to its employees and their dependents, the Authority established a partial self-insurance plan to cover claims for the medical costs of its employees and their dependents. The partial self-insurance plan provides coverage of up to \$541,086 of total medical care claims for the calendar year of 2008. For claims in excess of coverage of \$541,086, the Authority has purchased commercial insurance. Commercial insurance has also been purchased to provide vision and dental benefits for the employees of Huron Behavioral Health and their dependents. The following information relates to the Authority's partial self-insurance medical care plan for its employees.

	<b><u>2008</u></b>	<b><u>2007</u></b>
Partial self-insurance coverage limit	\$ 541,086	\$ 586,218
Medical care claims paid	539,647	580,554
Insurance reimbursements received	164,873	174,921
Annual medical care expense recognized	1,285,438	1,302,801

**Managed Care Risk Contracts:**

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The State General Fund risk contract and reserve covers only the Authority's specific service area. The Authority is at risk for any State General Fund service costs that exceed the revenue provided by the State of Michigan for these services. The Authority is required to cover any excess costs with local funds. In the event of incurring excess service costs, the Authority will use its available unrestricted fund balance to cover those costs.

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008 AND 2007**

**NOTE 13 – RISK MANAGEMENT: (CONTINUED)**

Contingent Liabilities.

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

The Michigan Department of Community Health (MDCH) has asked the Authority to repay to the MDCH an amount which represents excess building rent paid to a "related" party from 1980 to the present time. The MDCH request is based on an accounting principle that says rent paid to a related party will be reimbursed only to the extent of the related party's underlying costs. The MDCH asserts that the rent paid by the Authority over the years is substantially more than the County's (the owner of the building) actual underlying cost. For the same reason the MDCH has stated that it will not reimburse future rent paid by the Authority to the County. The amount that the MDCH is requesting is yet to be determined.

The Authority asserts that it is a separate governmental entity from the County and therefore, does not meet the definition of a related party. The rent paid to the County would then not apply to the accounting principle asserted by the MDCH as excess rent paid to a related party. The Authority plans to vigorously contest the MDCH claim for reimbursement. An estimate of the outcome of this dispute with the MDCH cannot be made at this time.

**REQUIRED SUPPLEMENTAL INFORMATION**

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>REVENUES:</b>				
Medicaid Specialty Supports & Services	\$ 7,028,744	\$ 7,028,744	\$ 7,475,015	\$ 446,271
State General Fund Priority Population	942,538	942,538	943,617	1,079
MIChild Capitation	6,612	6,612	6,888	276
Adult Benefit Waiver Capitation	124,531	124,531	118,348	(6,183)
Program Service Revenue	358,296	358,296	359,978	1,682
Grants and Earned Contracts	350,824	350,824	329,047	(21,777)
SSI Reimbursements, 1st/3rd Party	104,666	104,666	107,966	3,300
County Appropriation	233,250	233,250	233,250	-
Interest Income - Working Capital	165,219	165,219	134,920	(30,299)
Other Local Income	13,253	13,253	13,543	290
<b>TOTAL REVENUES</b>	<u>9,327,933</u>	<u>9,327,933</u>	<u>9,722,572</u>	<u>394,639</u>
<b>EXPENSES:</b>				
State Facility - State Portion	120,450	120,450	-	120,450
State Facility - Local Portion	12,045	12,045	-	12,045
Community Hospital	329,567	329,567	347,750	(18,183)
Residential Services	348,515	348,515	349,766	(1,251)
Community Supports	964,334	964,334	1,044,054	(79,720)
Program Operations	6,870,209	6,870,209	6,827,006	43,203
Managed Care Administration	171,400	171,400	195,813	(24,413)
General & Board Administration	1,000,264	1,000,264	1,011,160	(10,896)
Local Funds Contribution	168,800	168,800	168,800	-
Interest Expense	6,348	6,348	6,348	-
Depreciation	68,866	68,866	69,130	(264)
<b>TOTAL EXPENSES</b>	<u>10,060,798</u>	<u>10,060,798</u>	<u>10,019,827</u>	<u>40,971</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (732,865)</u>	<u>\$ (732,865)</u>	<u>\$ (297,255)</u>	<u>\$ 435,610</u>

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Schedule of Funding Progress - Employee Retirement System**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b) - (a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b - a)/c]</u>
12/31/2007	\$ 10,193,874	\$ 10,397,135	\$ 203,261	98%	\$ 2,625,012	8%
12/31/2006	9,262,836	9,519,278	256,442	97%	2,519,327	10%
12/31/2005	8,398,615	8,572,965	174,350	98%	2,496,251	7%
12/31/2004	7,668,572	8,006,982	338,410	96%	2,792,539	12%

**HURON BEHAVIORAL HEALTH,  
HURON COUNTY, MICHIGAN**

**SEPTEMBER 30, 2008**

**Schedule of Funding Progress for HBHPHP**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/2004	\$ 0	\$ 5,547,589	\$ 5,547,589	0%	\$ 1,763,106	314.6%





## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board  
Huron Behavioral Health  
Bad Axe, Michigan 48413

We have audited the financial statements of the governmental activities and each major fund of Huron Behavioral Health, as of and for the years ended September 30, 2008 and 2007, which collectively comprise Huron Behavioral Health's basic financial statements and have issued our report thereon dated December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Huron Behavioral Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Huron Behavioral Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Huron Behavioral Health's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Huron Behavioral Health's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Huron Behavioral Health's financial statements that is more than inconsequential will not be prevented or detected by the Huron Behavioral Health's internal control.

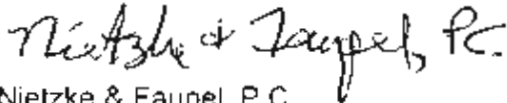
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Huron Behavioral Health's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huron Behavioral Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board Members, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Nietzke & Faupel, P.C.  
Pigeon, Michigan

December 31, 2008